

**Attorney General's
Second Set of Information Requests**

**THE BERKSHIRE GAS COMPANY
D.T.E. 04-47**

Witness: Karen L. Zink
Date Filed: September 3, 2004

Question

AG-2-1: Please state the questions asked by Department staff and the answers given by the Company during the Department's unrecorded technical session with the Company held by conference call on Friday, August 20, 2004. Provide as much detail as possible. Include statements and discussions of issues that may not have been the result of direct questioning by the staff. Provide a list of attendees and provide copies of all materials distributed by the attendees.

Response: A conference call was initiated on Friday August 20, 2004. The call began with a discussion of some procedural matters and a discussion of the objectives of the call, namely to facilitate the issuance of discovery and eventual cross-examination of the Company's witness. The Company was asked to compare the alliance to an asset management contract and also to compare and contrast the role of BP Energy and NEGM, as relates to the Company's Canadian supply sources. A discussion of the concept of "flowing gas supply" and how savings are realized through the alliance was the final subject for discussion. The subject generally was similar to the question raised in Information Request DTE-2-1.

The Hearing Officer, John Geary, and Gas Division representatives Andreos Thanos and John Warchol participated in the call. Karen Zink and the Company's counsel, James Avery, also participated.

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Question

AG-2-2: Refer to AG-1-2, Attachment B, the Gas Sales and Purchase Agreement. What is the term of this agreement?

Response: The Gas Sales and Purchase Agreement is coterminous with the Optimization Agreement or Interim Agreements, as applicable, per Article III.

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Question

AG-2-3: For each of the Energy East affiliates that also participate in the BP Optimization arrangement, please describe the ratemaking treatment of the minimum savings and, for each affiliate, the ratemaking treatment of any shared savings.

Response: Berkshire is not aware of the specific ratemaking treatment for other Energy East affiliates participating in the alliance. As noted by the Company and recognized by the Department in D.T.E. 02-19, strict controls and procedures are in place and the Allocation Agreement (please refer to the response to Information Request AG-1-5(A)) is clear on how savings will be allocated among the companies. Namely, each alliance company's share of savings generally will be calculated on a "transaction by transaction" basis accounting for which company's assets were employed to generate the relevant savings. Please refer to D.T.E. 02-19, pp. 17-18.

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Question

AG-2-4: Please provide the calculation of the participating shares for each affiliate as are currently effective and the calculations for the participating shares under the prior agreement. Describe the conditions under which Berkshire's participating share may be changed. If the participating shares have been changed for any reason than to accommodate additional affiliates, please explain the conditions and the results.

Response:

	<u>Current</u>	<u>%</u>	<u>Previous</u>
Berkshire			
Connecticut Natural Gas			
NYSEG			
RG&E			
Southern Connecticut Gas	_____		_____
Total	<u>100.00%</u>		<u>100.00%</u>

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Question

AG-2-5: Please provide a tabulation of all fees, penalties, interest, taxes and other BP incurred costs for which the Company reimbursed or were netted against payments to the Company during the most recent contract year. For each cost category, provide a citation to the agreement that authorizes the reimbursement.

Response: See response to Information Request DTE-1-1.

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Question

AG-2-6: Refer to AG-1-2, Attachment A, the 2004 Optimization Agreement, §2.7. Please explain the basis for the change in this provision.

Response: The change to § 2.7 of the Optimization Agreement was negotiated at the insistence of Berkshire and some other LDC's in order to seek to address regulatory concerns with respect to diversity of supply.

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Question

AG-2-7: Refer to AG-1-2, Attachment A, the 2004 Optimization Agreement, §2.8. Please explain the basis for the change in this provision. Is the Company responsible for any costs related to the "new centralized trading and reporting system?" If yes, provide the amount and how the Company will treat these costs for ratemaking purposes.

Response: The change to Section 2.8 was prompted by BP Energy, primarily to provide somewhat greater flexibility over the term of the Optimization Agreement. BP Energy may update and enhance its centralized trading and reporting system. If BP Energy initiates such an enhancement, it must demonstrate to Berkshire that any new system is adequate to meet the obligations set forth in the Optimization Agreement and BP Energy must also maintain its existing system until Berkshire is satisfied with any transition. Berkshire incurs no costs for the services provided by BP Energy. Please refer to the response to Information Request DTE-1-1.

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Question

AG-2-8: Refer to AG-1-2, Attachment A, the 2004 Optimization Agreement, §4.14. Please explain how this provision affects Berkshire's allocation of Minimum Savings. Is Berkshire affected differently should all the storage variances relate to affiliate storage facilities and not Berkshire's? If this provision was triggered in prior contract years, please provide the details and how it affected Berkshire's and each affiliate's allocation of savings. Include all supporting documentation, calculations, workpapers and assumptions.

Response: Section 4.14 measures the aggregate storage levels for Berkshire and the Energy East LDCs participating in the alliance. If storage is filled to the level, on the applicable April 1, of more than 40% but less than 50%, the Aggregate Minimum Savings would be reduced \$200,000, and if 50% or more on that date, the Aggregate Minimum Savings would be reduced by \$300,000. No reduction would occur, however, if the Aggregate Minimum Savings amount was achieved in the Contract Year. If there is a reduction, Berkshire's share of the reduction would be the amount determined by multiplying Berkshire's participating share by the amount of the reduction. This provision has not been triggered in any of the prior contracts. See also response to Information Request DTE-1-9.

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Question

AG-2-9: Refer to AG-1-4, Attachment A. Please provide the documentation and calculations supporting the allocation factors described in the column labeled "Allocation Method."

Response: Please refer to Exhibit B-2 of the Optimization Agreement which describes the savings calculation methodology and examples. Also refer to Information Request AG-1-5, Attachment AG-1-5(A), the Allocation Agreement, which describes how the savings are allocated among each LDC.

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Question

AG-2-10: Refer to AG-1-46. Please explain and quantify the "reduction of gas price volatility" benefit experienced during the prior contract term.

Response: During the prior contract term, there were many changes which occurred in the energy industry. Many wholesale industry participants withdrew from the marketplace, there were credit concerns, counter-party risk and tight supplies. All of these issues resulted in volatility in natural gas prices. Nonetheless, Berkshire's cost of gas adjustment was lower than it would have been had the agreement with BP Energy and the other Energy East LDCs not been in place. See response to Information Requests AG-1-4, AG-1-31 and AG-1-45.

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Question

AG-2-11: Refer to AG-1-58. Please explain, in detail and provide an illustration based on the Company's most recent peak and off peak CGA filings how the Company proposes to treat all margins (and define margins related to the BP agreement) for ratemaking purposes. Also explain, in detail, and provide an illustration, as above, for the Company's alternative approach.

Response: As stated in the response to Information Request AG-1-58, the underlying nature of the transactions pursued within the alliance fit within the categories established in D.P.U. 93-141-A. That is, transactions could be considered capacity release and/or off-system sales transactions. The current method of margin sharing considers each category separately. The following would be examples of margin sharing under the current and alternative methods:

	<u>Hypothetical Examples</u>	
	<u>Capacity Release</u>	<u>Off-System Sales</u>
12 Months Ended 4/30/05	\$50,000	\$75,000
12 Months Ended 4/30/04	<u>\$40,000</u>	<u>\$60,000</u>
Increase in Margins	<u>\$10,000</u>	<u>\$15,000</u>
Retain 25% of Excess	<u>\$ 2,500</u>	<u>\$ 3,700</u>
Return Through CGA	<u>\$ 7,500</u>	<u>\$11,250</u>

	<u>Alternative Method Examples</u>
	<u>Total Margins</u>
12 Months Ended 4/30/05	\$125,000
12 Months Ended 4/30/04	<u>\$100,000</u>
Increase in Margins	<u>\$ 25,000</u>
Retain 25% of Excess	<u>\$ 6,250</u>
Return Through CGA	<u>\$ 18,750</u>

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Question

AG-2-12: What is the amount of the aggregated revenues/margins the Company has received from participating in arrangements with BP? What is the amount and over what period has the Company flowed the benefits through to customers. What amount has been retained by the Company under margin sharing precedent? Include all supporting documentation, calculations, workpapers and assumptions.

Response: Please refer to the responses to Information Request AG-1-4, AG-1-31, and AG-1-76. The benefits noted on these responses have been flowed through to customers since 2001 through the Company's cost of gas adjustment.